

# CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM STATEMENT OF INVESTMENT POLICY

## FOR SECURITIES LENDING

~~October 12, 2007~~ November 13, 2007

*This Policy is effective immediately upon adoption and supersedes all ~~previous~~ securities lending policies.*

### I. PURPOSE

The CalPERS Total Fund Statement of Investment Policy, adopted by the CalPERS Investment Committee ("Committee"), sets forth CalPERS' overarching investment purposes and objectives with respect to all its investment programs.

This document sets forth the investment policy ("~~the~~ Policy") for Securities Lending ("~~the~~ Program"). The design of this Policy ensures that investors, managers, consultants, ~~or~~ and other participants selected by the California Public Employees' Retirement System ("CalPERS~~the System~~") take prudent and careful action while managing the Program. Additionally, use of this Policy ~~provides~~ assures ~~ance~~ ance ~~that there is~~ sufficient flexibility in managing ~~controlling~~ investment risks and returns associated with the management and oversight of the Program.

### II. STRATEGIC OBJECTIVES

The Program shall be managed to accomplish the following:

1. It is intended that the Securities Lending Program generate income primarily from fees derived from lending its positions in invested capital from debt or equity securities to qualified borrowers and secondarily through a moderate risk collateral investment strategy. Generating incremental income by lending securities to qualified borrowers is the strategic objective of the System's Program. Borrowers provide collateral in exchange for the right to borrow securities.
2. Collateral investment shall follow CalPERS' the System's Guidelines and Procedures.

~~The principal objectives for securities lending are liquidity and preservation of capital. To minimize the incentive, which violates guidelines established for this Program, no specific rate of return is expected from the Securities Lending Program. Rather, the System expects strict conformity with its guidelines and shall let market mechanics determine the demand for securities and resulting incremental income. It is intended that the Securities Lending Portfolio generate~~

income primarily from fees from loans and secondarily through a moderate risk collateral investment strategy.

### III. RESPONSIBILITIES

A. ~~The System's Investment Committee ("the Investment Committee")~~ shall have the following responsibilities and duties:

1. ~~Approving Securities Lending Policy and Delegated Lending and Cash Collateral Reinvestment Guidelines.~~

2. ~~Reviewing Securities Lending Program performance annually with the Staff and the General Pension Consultant.~~

B.A. The System's Investment Staff's CalPERS' Investment Staff ("the Staff") is responsible for duties include, but are not limited to, the following:

1. Approving and updating all attachments to this policy as necessary.

2. Reporting to the Investment Committee at least annually and more often, if necessary about the performance and compliance of the Program.

3. Updating the Investment Committee at least annually on any changes to the collateralization levels, acceptable credit rating for counterparty lending limits and changes to permissible securities including changes in duration targets and credit ratings.

3.4. Monitoring the implementation of, and compliance with the Policy by lending agents', cash collateral managers' and principal borrowers. Staff shall report, orally or in writing, concerns, problems, material changes, and all violations of Policies immediately to the Senior Investment Officer ("SIO"). These reports shall include explanations of the violations and appropriate recommendations for corrective action. compliance with Program guidelines on an ongoing basis and follow the violation procedures if a violation occurs.

4. ~~Reviewing the Securities Lending Guidelines annually and recommending changes to the Investment Committee.~~

5. ~~Reviewing and evaluating the monthly reports from the lending agents, cash collateral managers and principal borrowers. Designing and requesting changes to the monthly report format as needed.~~

~~6.Overseeing the resolution of sell fail disagreements between lending agents or principal borrowers or both and investment managers.~~

~~7. Approve portfolios that are available for lending.~~

B. Borrowers (Lending Agents ~~or~~ and Principal Borrowers) are responsible for the following:

~~1. Annually, the lending agent shall present the System with a list of all potential borrowers and the applicable credit exposure. CalPERS reserves the right to eliminate or add borrowers and adjust credit limits made to each borrower.~~

~~2.1. The lending agent or principal borrower or both shall immediately notify Reporting to Staff immediately on if there is a violations of the Delegated Lending and Cash Collateral Reinvestment Guidelines.~~

~~3.2. The lending agent or principal borrower or both shall p~~Providing~~e~~ daily and monthly standardized reports which will include detailed daily lending activity (including but not limited to securities on-loan, market values and collateralization, loan duration, security location and currency, and borrower information) and monthly portfolio level statistics (including but not limited to market values, average on-loan positions, utilization rates rebates, intrinsic earnings, fees, and sell fail statistics).

C. The General Pension Consultant ("Consultant") is responsible for:

Monitoring, evaluating, and reporting periodically to the Committee, on the performance of the Program relative to the Program's Strategic Objectives.

D. Cash Collateral Manager Internal is responsible for reporting:

~~1. The Internal Cash Collateral Manager shall~~ Reporting ~~immediately, orally and in writing, notify the Senior Investment Officer, Global Fixed Income Unit if there is \_all\_ violations of CalPERS' Global Fixed Income Policy - Dollar-Denominated Fixed Income Limited~~ Short-Duration to the Senior Investment Officer, Global Fixed Income. ~~Investment Policy.~~

~~2. The Internal Cash Collateral Manager shall provide daily and monthly reports as specified by Staff. The standardized reports will include but are not limited to security information (including but not limited to cusip, description, par value, market value, duration, yield to maturity, coupon, credit quality, collateral (Repo), location, currency, and broker information), portfolio weighted average life, and monthly portfolio level statistics (including but not limited to reinvestment earnings and rebates).~~

E. Cash Collateral Manager External is responsible for the following:

- ~~1. The External Cash Collateral Manager shall immediately n~~Notifying Staff immediately, both orally and in writing on all violations if there is a violation of the Delegated Lending and Cash Collateral Reinvestment Guidelines.
- ~~2. The External Cash Collateral Manager shall p~~Providing daily and monthly standardized reports as specified by Staff. The standardized reports will include but are not limited to security information (including but not limited to cusip, description, par value, market value, duration, yield to maturity, coupon, credit quality, collateral (Repo), location, currency, and broker information), portfolio weighted average life, and monthly portfolio level statistics (including but not limited to reinvestment earnings, rebates and fees).

F. ~~Delegations~~

~~Staff may, subject to analysis, documentation and fiduciary responsibility, and upon approval from the Senior Investment Officer Global Fixed Income Unit, revise the following areas:~~

- ~~1. Collateralization levels,~~
- ~~2. Counterparty limits for the agent and principal borrower programs,~~
- ~~3. Permissible securities,~~
- ~~4. Maturity, duration, and credit quality of permissible securities,~~
- ~~5. Diversification for individual issuers and sectors, and countries, and~~
- ~~6. Internal cash collateral allocation limits.~~

~~Attachment A contains guidelines for the preceding delegated areas.~~

#### IV. VIOLATION REPORTING

A. The violation reporting process shall be as follows:

1. The lending agents, external cash collateral manager or principal borrower shall report all violations to the Staff immediately by telephone, followed by a written notification describing the violation. The internal cash collateral manager shall report all violations of ~~CalPERS' Dollar Denominated Fixed Income Short Duration Investment Policy~~ immediately to the Senior Investment Officer, Global Fixed Income Unit.
2. Staff shall report orally, or in writing, all violations immediately to the Senior Investment Officer, Global Fixed Income Unit.
3. The Senior Investment Officer, Global Fixed Income Unit shall immediately report orally, or in writing, any violation to the Chief Investment Officer (CIO) and the Assistant Executive Officer Chief Operating Investment Officer.
4. ~~As a follow up to the verbal report, the Staff shall prepare a written report of any violation within a time period not exceeding 30 days.~~
- 5.4. The CIO Chief Investment Officer shall determine the appropriate means of further reporting based on his or her judgment of the magnitude, sensitivity, and severity of the violation
  - a. All violations shall be reported to the Investment Committee as part of a quarterly report agenda item on the Investment Committee's regular agenda. The report shall coincide with the regular quarterly reports of the CalPERS general pension consultant.
  - b. Depending on the violation, and at the discretion of the CIO Chief Investment Officer, reporting may also be made to the Investment Committee as a separate agenda item or as a portion of the CIO Report at the next scheduled Committee meeting. The report may be made as a separate agenda item or as a portion of the Chief Investment Officer's Report at the next scheduled Committee meeting. These reports shall include explanations of the violations and appropriate recommendations for corrective action.
  - c. If a Policy violation is to be reported to the Committee, the Consultant shall be asked to provide an opinion as to the impact of the Policy violation to the Program and overall fund.

- B. Violations caused by the sale of assets on loans need not ~~shall not~~ be reported to the ~~Investment~~ Committee unless the following occurs:
1. The violation is not returned to compliance within five business days; or
  2. The violation exceeds the limits specified for this scenario within the Policy.

## **V. PERFORMANCE OBJECTIVE AND BENCHMARK**

CalPERS expects strict conformity with its guidelines and shall let market mechanics determine the demand for securities and resulting incremental income. It is intended that the Program shall generate income primarily from fees from loans and secondarily through a moderate risk collateral investment strategy

## **IV.VI. GENERAL CALCULATIONS AND COMPUTATIONS**

- A. Investors, managers, consultants, or other participants selected by CalPERS shall make all calculations and computations on a mark-to-market or amortized cost method, depending on market convention. Securities for which market quotations are readily available shall be accounted for using the mark-to-market method. When no market quote is available, the amortized cost method shall be used for determining the security's value.
- B. CalPERS Securities Lending Program shall adhere to the Investment Policy for Global Proxy Voting Principles.

## **VI.VII. GLOSSARY OF TERMS**

~~Definitions for k~~Key words used in this policy are defined ~~located in the Miscellaneous Glossary of Terms which is included in CalPERS' the System's Master Glossary of Terms.~~

Approved by the Policy Subcommittee: August 12, 1998

Adopted by the Investment Committee: September 14, 1998

Revised by the Policy Subcommittee: December 14, 2001

Approved by the Investment Committee: February 19, 2002

Revised by the Policy Subcommittee: December 10, 2004

Revised by the Policy Subcommittee: March 11, 2005

Approved by the Investment Committee: April 18, 2005

Revised by the Policy Subcommittee: October 12, 2007

Approved by the Investment Committee: November 13, 2007

**Attachments**

Attachment A – Delegated Lending and Cash Collateral Reinvestment Guidelines

Attachment B – Approved Countries for Equity Lending and Fixed Income Lending

Attachment C – Approved Borrower List

Attachment D – Eligible Repo Counterparties

**Delegated Lending and Cash Collateral Reinvestment Guidelines**  
**Revised ~~October 12, 2007~~ November 13, 2007**

**I. Lending Guidelines**

A. Securities eligible for loan must meet the following criteria:

1. The lending agent may only lend securities and the principal borrower may only borrow securities of issuers headquartered in countries contained in CalPERS'~~the System's~~ Approved Countries for Equity Lending and Fixed Income Lending, copies of which are included as Attachment B.
2. Securities Lending in International Markets is only permissible if the following conditions are met:
  - a. Local regulations permit securities lending.
  - b. A central depository exists providing free deliveries without penalties.
  - c. Settlement guidelines allow for avoidance of transaction delivery failures.
  - d. Collateral value is received before or simultaneously with the movement of loaned securities.
  - e. The lending of securities does not adversely affect the fund's tax liabilities.
  - f. American Depository Receipts (ADR), Global Depository Receipts (GDR), Yankee Bonds and dually listed securities may be lent so long as the exchange is located in a country contained in ~~the System's~~CalPERS' Approved Countries for Equity Lending and Fixed Income Lending which are included in Attachment B.
3. Staff shall inform the lending agent or principal borrower or both in writing from which accounts they may lend securities.

B. Collateralization

1. Initial Margin: The proper amount of collateralization shall be market value times the appropriate percentage for each security type:



- a. Domestic securities - 102%
  - b. Matching currency investment for G10 domiciled issuers- 102%
  - c. All other international securities - 105%
2. Maintenance Margin: Loan collateral below these specified maintenance levels must be adjusted within 24 hours and before the securities being re-lent to the same borrowers.
    - a. The maintenance margin is 102% for securities with an initial margin of 102%.
    - b. The maintenance margin is 105% for securities with an initial margin of 105%.
  3. Non-material Margin Call: Despite the maintenance margin percentages above, non-material margin calls of \$100,000 or less need not be made as long as collateral is 101.5% or more for securities with an initial maintenance margin of 102% and 104.5% or more for securities with an initial maintenance margin of 105%.

### C. Counterparty

#### Lending Agents

1. Lending agents are permitted to lend securities only to counterparties specified on the CalPERS “List of Approved Borrowers” which are included in Attachment C. Staff must approve additions to this list. The qualification and lending dollar limits specified by CalPERS follows for each individual counterparty:

<u>Borrower Attachment C</u>	<u>Credit Rating</u>	<u>Individual Counterparty Borrower Lending Limit</u> <sup>1</sup>
Individual counterparty	A1/P1/F1 or better	\$200 million or 25% of portfolio, whichever is greater. Limited to \$2.0 billion.
<sup>1</sup> : Market convention and accrued interest		

2. If the percentage of loans to an individual counterparty becomes greater than 25% of the portfolio, it must be back in compliance within five business days and shall be considered a violation if the

total percentage of securities lent to any individual counterparty exceeds 30% of the portfolio at any time, it shall be considered a violation, regardless of the cause. This is subject to the borrower lending limits set forth in the previous section.

### Principal Borrowers

#### 1. Credit Tiers

Principal Borrowers must be rated A1/P1/F1 or better and meet certain other financial criteria as determined by CalPERS. Principal Borrowers must also verify they have minimum total assets of \$15 Billion, which will be monitored annually thereafter.

#### 2. Diversification

CalPERS total securities lending exposure is initially limited to \$4 Billion per A1/P1/F1 principal counterparty. If CalPERS assets on loan through principal programs with any one borrower should exceed the established limit, exposure must be returned to compliance within five business days. No additional lending to that counterparty may take place until the principal exposure is returned below the established limit.

## II. Collateral Guidelines

~~The System established the following investment guidelines.~~ The lending agent, cash collateral manager or principal borrower shall follow these guidelines explicitly. If, at any time, the collateral portfolio violates these guidelines (e.g., a credit rating downgrade), the lending agent, cash collateral manager or principal borrower shall immediately notify CalPERS in writing. Staff shall notify the Senior Investment Officer, Global Fixed Income Unit who shall determine if immediate action is necessary to bring the portfolio into compliance.

### A. Permissible Securities

1. Money market instruments, including obligations of the U.S. Government and its agencies, and domestic money market instruments (commercial paper, bank time deposits, certificates of deposit, and banker's acceptances). Non-domestic money market instruments must be on CalPERS' Lists of Approved Countries for Equity Lending and Fixed Income Lending, copies of which are attached to this document as Attachment B.
2. Repurchase Agreements and Tri-Party Repurchase Agreements (repos and tri-party repos) collateralized at 102% by debt

obligations of the U.S. Government or its agencies (this does not include mortgage-backed securities), Repurchase agreements and Tri-Party Repurchase agreements collateralized at 105% by A3/A-/A- or higher rated corporate debt or AAA [asset-backed securities](#) or commercial paper with a minimum A1/P1/F1 rating. Repurchase agreements and Tri-Party Repurchase agreements collateralized at 105% by common stock of companies included in one of the following indices: Nasdaq composite, Russell 3000, or the S&P 500. Individual common stock concentration is limited to 5% per issuer. Repurchase agreements and Tri-Party Repurchase agreements must be marked-to-market daily. Repurchase agreements and Tri-Party Repurchase agreements must be with counterparties in Attachment D. Mortgage-backed securities are prohibited. Collateral for Tri-party repurchase agreements must be a minimum of \$1 million in size.

3. [Notes](#), bonds, and debentures issued by the U.S. Government and its agencies, U.S. corporations, Canadian, supranational, and foreign sovereign entities subject to the maturity and credit quality limitations specified in the Credit Quality Section.
4. [Money market funds](#) as defined under SEC Regulation 270.2a-7.
5. Collective trusts and other short term investment funds pre-approved by CalPERS staff.
6. Asset-backed securities, which are rated AAA and are senior in class structure whose underlying loans or receivables are against automobiles (including motorcycle and recreation vehicles), [stranded assets](#), credit cards, Rate Reduction Bonds, Student Loans or equipment loans and leases. Any sectors not mentioned expressly herein must be pre-approved by Staff prior to purchase. Securities which are junior in credit and/or payment structure are prohibited.
7. [Floating rate](#) and variable rate securities, subject to maturity, credit quality, and reset limitations specified below. The Cash Collateral Investment Portfolio can invest in adjustable rate securities tied to LIBOR, Fed Funds, Treasury Bills, and Commercial Paper Indices as well as auction rate securities if rated AAA with an auction rate reset date of 35 days or less. Adjustable rate securities, which are specifically excluded include, but are not limited to, the following:
  - a. [“Inverse floaters,”](#) “leveraged floaters” and any securities whose interest rate reset provisions are based on a formula that magnifies changes in interest rates.

- b. “Constant Maturity Treasury (CMT) floaters” and securities whose interest rate reset provisions are tied to long-term interest rates so that a change in the slope of the yield curve could result in the value of the instrument falling below par.
  - c. “Capped floaters,” “range floaters,” and securities on which interest is not paid above a certain level or cease paying any interest when a certain level is reached.
  - d. “Dual index floaters” and securities whose interest reset provisions are tied to more than one index so that a change in the relationship between these indexes may result in the value of the instrument falling below par.
  - e. “Cost of Funds Index (COFI) floaters,” “prime floaters,” and securities whose interest rate reset provision is tied to an index materially lagging short-term interest rates.
8. To help mitigate currency risk, non-U.S. G10 currency may be received as collateral for loaned securities of the corresponding G10 country. The currency must be invested in eligible securities denominated within the same currency and in compliance with the System’s CalPERS’ Securities Lending collateral investment guidelines.
9. Non-U.S. sovereign debt is acceptable as payment for G10 loaned securities provided the debt is the same country as the loaned security. The investment must be in accordance with the System’s CalPERS’ collateral investment guidelines.
10. Unless specifically permitted in this Policy, investment in derivative securities is prohibited.

#### B. Maturity and Duration

1. The average life of the collateral investment portfolio shall not differ from the average life of the outstanding loans by more than 60 days.
- a. For securities with periodic principal payments, the weighted-average days to maturity shall be calculated from the evaluation date to the date of the security’s average life.

- b. The portfolio weighted-average days to maturity shall be calculated from the evaluation date to the date of the next coupon reset for floating rate securities.
    - c. Loans on an open basis (i.e., can be called by either party on one day notice) are considered one day instruments.
  - 2. To maintain liquidity, a minimum of 10% of the portfolio must be invested in overnight instruments.
  - 3. These guidelines are intended to mitigate negative convexity risk (i.e., contraction or extension risk). The lending agent or cash collateral manager or both shall invest in the collateral portfolio with full spirit of this intention.
  - 4. Fixed-rate notes, bonds, debentures, and asset-backed securities shall have a projected maximum average life of 14 months. Fixed Rate ABS securities must have a final expected (per Bloomberg default option pricing speed) maturity that does not exceed five years.
  - 5. Floating rate and variable rate securities may not exceed a term of three years fixed from the date of purchase to final stated maturity. Floating rate, asset-backed securities shall have a projected maximum average life of three years and a final expected (per Bloomberg default option pricing speed) maturity that does not exceed five years. The interest rate reset on each of these securities must occur no less frequently than every three months.
  - 6. Repurchase agreements, excluding U.S. Treasury or agencies, shall have a maximum term of one month. Repo agreements with U.S. Treasury or agencies shall have a maximum term of three months.
  - 7. Money Market Mutual Funds and commingled STIF funds will be considered to have a maturity of one day.
- C. Credit Quality: Securities must receive the required credit quality level if rated by all ratings agencies. Ratings are required from at least two of three following Rating Agencies: [Standard & Poor's](#), [Moody's](#) and Fitch Investor Services. For a credit-enhanced issue for purchasing eligibility, the provider of the enhancement must be an AAA-rated financial institution. The minimum credit rating per instrument category is as follows:

<b>Asset Side – Credit Rating</b>	
<b>Security</b>	<b>Minimum Credit Rating</b>
Asset backed securities	Aaa/AAA/AAA
Money Market Instruments	A1/P1/F1
Non-domestic US dollar denominated securities	A1/P1/F1
Domestic corporate notes, bonds and debentures	A1/A+/A+
Canadian corporate notes, bonds and debentures	A1/A+/A+
Floating and variable rate securities	
Final stated maturities two years or less	A1/A+/A+
Final stated maturities more than two years	AA2/AA/AA
<a href="#">Supranational</a> and foreign (excluding Canadian)	Aaa/AAA/AAA
Sovereign issues	Aa3/AA-/AA-
<i>Note: Split-rated securities are considered to have the lower of the two ratings.</i>	

- D. Diversification: Following are investment limits for individual issuers and sectors:

Asset Side – Diversification	
Sector <sup>1,2</sup>	Acceptable % of Collateral Pool
Any one issuer except US government & agencies <sup>3</sup>	< = 5% or \$100 million, whichever is greater
Any overnight loan to non-US government issuer	< = 10% or \$400 million, whichever is greater
Zero-coupon government issues <sup>4</sup>	< = 15%
Any one corporate sector, except financial sector	< = 25%
Corporate financial sector	< = 50%
Single repo broker	< = 25% or \$300 million of aggregate repo balance, whichever is greater
Corporate debt	< = 50%
Asset-backed securities	< = 70%
Student Loans	< = 25%
Credit Cards	< = 25%
Individual Master Trust Limit	< = 5%
Auto Loans/Leases	< = 35%
All other ABS sectors	< = 20%
<sup>1</sup> Investment in securities issued by broker dealers is specifically prohibited	
<sup>2</sup> Illiquid securities are prohibited. Illiquid securities are issues not salable without material impact on sale proceeds.	
<sup>3</sup> Except US Treasury and agencies carrying explicit government guarantee	
<sup>4</sup> US T-Bills, commercial paper, US agency discount notes are not considered zero-coupon	

1. In the event an issuer exceeds 5% of the portfolio due to the sale of assets on loan (see the Securities Lending Policy on Violation Reporting), the collateral must return to compliance within five business days. It shall be considered a violation if the issuer ever comprises 5.5% of the portfolio or greater (if the total issuer obligations are more than \$100 million).

If a non-US government issuer exceeds 10% of the portfolio due to the sale of assets on loan (see the Securities Lending Policy on Violation Reporting), the collateral must return to compliance within five business days. It shall be considered a violation if the issuer

ever comprises 10.5% of the portfolio or greater (if the total issuer obligations are more than \$400 million).

2. If a repo subsequently becomes greater than 25% of the aggregate repo balance, it shall be considered a violation, unless the increase in percent of repos is caused by a sale of securities on loan. In this scenario, the repo balance must be back in compliance within five business days and shall be considered a violation if the total amount of repos invested with that counterparty exceeds 30% at anytime, regardless of the cause.

### III. Cash Collateral Allocation

CalPERS has the ability to allocate Securities Lending cash collateral to a variety of internal programs through a third party securities lending cash collateral manager. The returns of the internal programs will be commensurate with the levels of returns received with external securities lending cash collateral opportunities, all of which fall within the collateral guidelines. CalPERS' internal cash collateral manager is excluded from these provisions and is governed by CalPERS' Global Fixed Income Policy – Attachment C - Dollar-Denominated Fixed Income Short-Term Duration Investment Policy.

- A. Prior to receiving any cash collateral, ~~the System's~~ CalPERS' program must provide an internal indemnification to the Securities Lending Program. The internal indemnification will be in the form of a Memorandum of Understanding (MOU) between the Securities Lending Program and the internal program.
- B. All investments in a ~~System's~~ CalPERS' program must fall within the current maturity and duration constraints.
- C. Cash collateral allocation to internal programs will be limited to the lesser of \$500 million or 20% of the average outstanding cash collateral balance for the Securities Lending Program. The average outstanding cash collateral balance will be calculated on the first business day of each month using the previous month's daily balances. If the newly calculated average outstanding cash collateral balance decreases, the internal programs shall return the excess cash collateral by the sixth business day of the month.



**APPROVED COUNTRIES FOR EQUITY LENDING AND FIXED INCOME LENDING  
as of April 11, 2007**

**THE FOLLOWING MARKETS ARE APPROVED FOR EQUITY LENDING.**

Australia	Portugal
Austria	Singapore
Belgium	South Africa
Canada	South Korea*
Denmark	Spain
Finland	Sweden
France	Switzerland
Germany	Thailand*
Hong Kong	Turkey*
Italy	United Kingdom
Japan	United States of America
Luxembourg	
Mexico*	
Netherlands	
New Zealand	
Norway	

\*All borrowers must be pre-authorized by CalPERS to lend in these countries.

**THE FOLLOWING MARKETS ARE APPROVED FOR FIXED INCOME LENDING.**

Australia	Spain
Austria	Sweden
Belgium	Switzerland
Canada	United Kingdom
Denmark	United States of America
Finland	
France	
Germany	
Ireland	
Italy	
Japan	
Luxembourg	
Netherlands	
New Zealand	
Norway	

# **APPROVED BORROWER LIST** **as of July 1, 2005September 1, 2007**

BORROWER	MOODY's	S&P	FITCH	BORROWER	MOODY's	S&P	FITCH
Abbey National PLC	P-1	A1+	F1+	HSBC Holdings PLC	P-1	A1+	F1+
Abbey National Securities Inc.				HSBC Bank USA	P-1	A1+	F1+
ABN AMRO Holdings NV	Aa3			HSBC Securities (USA) Inc.			
ABN AMRO Bank NV	P1	A1+	F1+	ING Groep NV	Aa2	A1+	
ABN AMRO Bank NV, New York	Aa3			ING Financial Services			
ABN AMRO, Inc./New York				ING Financial Markets LLC			
ABN AMRO Securities LLC				JP Morgan Chase & Co.	P-1	A1+	F1
Bank of America Corp	P-1	A1+	F1+	JP Morgan Securities, Inc.			
Banc of America Securities LLC	P-1	A1	F1+	JP Morgan Chase Bank N.A.			
FleetBoston Financial Corp	Aa2	A1	F1+	Robert Fleming			
Bank of Montreal	P-1	A1	F1+	JP Morgan Canada			
BMO Nesbitt Burns Inc.				JP Morgan Securities, Limited			
Bankmont Financial Corp.				Lehman Brothers Holdings Inc.	P-1	A1	F1
Harris Nesbitt Corp.				Lehman Brothers, Inc.	P-1	A1+	F1
Barclays PLC				Lehman Commercial Paper, Inc.			
Barclays Capital, Inc	P-1	A1+		Lehman Brothers International (Europe)			
Bear Stearns Companies Inc.	P-1	A1	F1+	MacQuarie Bank Limited	P-1	A1	F1
Bear Stearns & Co. Inc				Merrill Lynch & Co., Inc.	P-1	A1	F1+
Bear Stearns Securities Corp.				Merrill Lynch International Limited			
Bear Stearns International Limited				Merrill Lynch Canada Inc.	P-1		
BNP Paribas	P-1	A1+	F1+	Merrill Lynch Government Securities, Inc.			
Paribas	P-1			Merrill Lynch, Pierce, Fenner & Smith Incorporated			
Banque Paribas				Morgan Stanley	P-1	A1+	F1+
Banque Paribas (London Branch)				Morgan Stanley & Co. Incorporated			
BNP Paribas Securities Corp.				MS Securities Services Inc.			
Canadian Imperial Bank of Commerce	P-1	A1	F1+	Morgan Stanley Securities Limited			
CIBC World Markets, Corp.	P-1			Morgan Stanley & Co. International Ltd			
Citigroup Inc.	P-1	A1+	F1+	National Bank of Canada	P-1	A1	F1
Citibank Canada		A1+		National Bank Financial Inc.			
Citigroup Global Markets Inc.	P1	A1+	F1+	Rabobank	P-1	A1+	F1+
Citigroup Global Markets Ltd	P1	A1+		Royal Bank Of Scotland PLC (UK)	P-1	A1+	F1+
Citigroup Global Markets Australia Pty Limited				Greenwich Capital Markets, Inc.			
Credit Suisse Group	P-1	A1	F1+	Royal Bank of Canada	P-1	A1+	F1+
Swiss American Securities, Inc.				RBC Dominion Securities Limited			
Credit Suisse (USA), Inc.	P-1	A1	F1+	RBC Dominion Securities Inc.			
Credit Suisse Securities (USA) LLC				Royal Bank Holding Inc.			
Credit Suisse International	P-1	A1		RBC Holdings (USA) Inc.			
Credit Suisse Securities (Europe) Limited				RBC Capital Markets Corporation			
Deutsche Bank A.G.	P-1	A1+	F1+	Societe Generale	P-1	A1	
Deutsche Bank A.G. (London Branch)	P-1		F1+	SG Americas Securities, LLC			
Deutsche Bank Securities Inc.	P-1		F1	Toronto-Dominion Bank	P-1	A1+	F1+
Deutsche Bank International Ltd				TD Securities (USA) LLC			
Deutsche Bank Securities Ltd				UBS AG	P-1	A1+	F1+
Dresdner Bank AG	P-1	A1	F1	UBS Securities LLC		A1+	
Dresdner Kleinwort Securities LLC				UBS Financial Services, Inc.			
Fortis		A1	F1	Wachovia Corp	P-1	A1+	F1
Fortis (NL) NV	P-1	A1+	F1	Wachovia Capital Markets, LLC			
Fortis Securities LLC				Wachovia Securities, LLC			
Goldman Sachs Group Inc.	P-1	A1+	F1+				
Goldman Sachs International							
Goldman, Sachs & Company	P-1	A1+					

\* Any Loans to a subsidiary who is either non rated or has a rating below A1/P1/F1 and is not a bank subsidiary must be guaranteed by an approved

\*\* Any borrower who undergoes a rating downgrade to below A1/P1/F1 will immediately be removed from the approved borrower list. It is the

\*\*\*Unless approved by Lender, any Loans to an approved borrower will be to a United States or otherwise to the home office of the approved borrower.

**ELIGIBLE REPO COUNTERPARTIES**  
**Effective September 14, 2006**

**Repo counterparties may include the following:**

1. Any bank or broker/dealer explicitly rated A1/P1/F1 by at least two of the three rating agencies. In the case of split ratings, measure against the lowest of the three ratings.
2. Any bank branch whose parent is rated A1/P1/F1 (by at least two out of the three agencies).
3. Any subsidiary of a parent entity rated A1/P1/F1 carrying a guarantee of the parent.
4. If an entity is not explicitly rated, is not a bank branch, and does not carry a parental guaranty, then the entity must be a Primary Government Securities Dealer (as listed on the Federal Reserve Bank of New York's Primary Dealer List located at: [http://www.ny.frb.org/markets/pridealers\\_current.html](http://www.ny.frb.org/markets/pridealers_current.html)).

and

The parent entity must be rated A1/P1/F1 by two of the three rating agencies.

In all cases, ratings must be issued by two out of the three agencies; in the case of split ratings, measure against the lowest of the three ratings.

**SPECIFIC REPO COUNTERPARTIES**

Eligible Counterparties include the names listed below. These may be amended at any time provided they comply with above guidelines.

	<b>Explicit Rating</b>	<b>Primary Dealer</b>	<b>Parent Rating</b>
Banc of America Securities Inc.	No	Yes	A1+/P-1
Barclays Capital Inc.	No	Yes	A1+/P1
Bear Stearns & Co., Inc.	No	Yes	A1/P-1
Bear Stearns International Limited *	No	No	Issues Guarantee
<i>*Eligible due to Parental Guarantee</i>			
BNP Paribas Securities Corp.	No	Yes	A1+/P-1
Citigroup Global Markets Inc.	A1+/P1	Yes	A1+/P-1
Credit Suisse Securities (USA) LLC	No	Yes	A1/P1
Deutsche Bank Securities Inc.	A1/P1	Yes	A1+/P-1
Dresdner Kleinwort Wasserstein Securities LLC	No	Yes	A-1/P-1
Goldman, Sachs & Company	A1+/P-1	Yes	A-1/P-1
HSBC Securities (USA) Inc.	No	Yes	A1/P-1
JP Morgan Securities Inc.	No	Yes	A1/P-1
Lehman Brothers, Inc.	A1+/P-1	Yes	A1/P-1
Merrill Lynch Government Securities Inc.	No	Yes	A1+/P1
Morgan Stanley & Co. Incorporated	No	Yes	A1/P-1
RBS/Greenwich Capital Markets, Inc.	No	Yes	A1+/P-1
UBS Securities LLC	A1+	Yes	A1+/P-1

**As of September 14, 2006**

**Asset-Backed Security**

A security collateralized by assets such as automobile loans, agricultural equipment loans, and credit card loans. The loans are securitized by the issuer and usually placed with a trustee.

**Collateral Pool (Cash Collateral)**

Cash collateral provided by the borrower of a securities lending transaction. The collateral is then pooled and invested in short-term securities, earning an incremental return.

**Commercial Paper**

An unsecured promissory note issued in the open market to raise short-term funds representing the obligation of the issuing entity.

**Derivative**

An instrument whose value is based on the performance of an underlying financial asset, index, or other investment. Classes of derivatives include futures contracts, options, currency forward contracts, swaps, and options on futures.

**Floating Rate Notes**

Securities that have a coupon or interest rate adjusted whenever a predefined change in interest rate occurs. Typically, floating rate notes coupons are based on a short-term rate index.

**G10 Countries**

Belgium, Canada, France, Germany, Italy, Japan, Netherlands, Sweden, Switzerland, United Kingdom, United States. G10 is the group of countries that have agreed to participate in the General Arrangements to Borrow

**Initial Margin**

The amount of collateral that must be delivered relative to the market value of the security loaned.

**Inverse Floaters**

A derivative instrument with a coupon rate, which cannot go below zero, that moves inversely with an index rate like London Interbank Offer Rate or 11th District Cost of Funds Index, usually with a leverage factor. The higher the leverage factor, the greater the price sensitivity.

**Lending Agents**

An agent hired by the sponsor for locating demand, negotiating premiums, and investing the cash collateral from securities lending on behalf of the sponsor.

**Maintenance Margin**

After a security is lent at an initial margin, the security loaned may increase in value, such that the amount of collateralization shall fall below the initial margin. The maintenance margin is the minimum level of collateralization that shall be accepted before additional collateral is delivered.

**Money Market Fund**

Fund that invests in commercial paper, banker's acceptances, repurchase agreements, government securities, certificates of deposit, and other highly liquid and safe securities, and pays money market rates of interest.

**Moody's Investors Service**

A nationally-recognized credit rating agency that grades the investment quality of bonds in a 9-symbol system. The ranges extend from the highest investment quality, which is Aaa, to the lowest credit rating, which is C. Securities rated Baa3 or greater are considered investment grade. Securities rated Ba1 or below are considered to be speculative.

**Notes**

Intermediate-term, interest-bearing instruments issued by corporations, municipalities, or the federal government with maturities commonly ranging from five to 12 years.

**Prepayment Speed**

~~Payments exceeding the scheduled repayments of principal. Zero prepayment speed assumes that repayment of the principal is as scheduled.~~

**Principal Borrower**

A borrower with exclusive rights to borrow securities from a specified portfolio(s) for a specified length of time in return for a guaranteed fee. The principal borrower may or may not be responsible for investing the cash collateral from securities lending on behalf of the sponsor.

**Repurchase Agreement**

Agreement between a seller and a buyer, usually of U.S. government securities, whereby the seller agrees to repurchase the securities at an agreed upon price and, usually, at a stated time.

**Sovereign Debt**

A country's government debt. In event of default, recourse for payment is made to the applicable sovereign government.

**Standard & Poor's**

A nationally-recognized credit rating agency that grades the investment quality of bonds in a 10-symbol system. The ranges extend from the highest investment quality, which is AAA, to the lowest credit rating, which is D. Securities rated

BBB- or greater are considered investment grade. Securities rated BB+ or below are considered speculative.

**Stranded Assets**

The electric utility industry in California underwent restructuring in January 1998, facilitating increased competition among providers. In the transition to a more competitive environment, electricity providers generated transition costs, commonly referred to as stranded costs. The California Public Utilities Code allows the electricity provider to recover these costs by charging existing, future residential, and small commercial customers. Stranded assets are fixed income securities collateralized by the receivables of electricity providers for recovering stranded costs.

**Structured Note**

~~An instrument representing a financial obligation created by modifying one or more standard financial obligations or instruments (i.e., a bond or mortgage) to create a risk/return profile or cash flow payment stream. This type of risk or return profile differs from the standard financial instrument from which it derives.~~

**Supranational Entities**

Multinational organizations usually formed for providing financial assistance to less developed countries. Examples of supranational entities include the World Bank and the International Monetary Fund (IMF).

**Unconditional Put Date**

~~The specific date before which a bond with a put option ("puttable bond") may, by its terms, be readily exercisable in the event of a default in payment of principal or interest on the underlying security.~~

**Variable Rate Note**

Securities having a coupon or interest rate adjusted periodically on a set date. Typically, variable rate notes have coupons based on a longer-term rate index and are reset once a year or longer.